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ABSTRACT

Quality Control (QC) regulations for the following federal entitlement programs are discussed: Aid to Families with Dependent Children (AFDC), Medicaid, Supplemental Security Income Program, and Food Stamp Program. Implications of these QC procedures and for the Department of Education's approach to QC regulations are also considered. Each set of regulations dealing with QC in the program is described according to several characteristics, including programmatic relationships among the federal, state, and local governments; QC responsibilities and procedures; standards and measures; frequency of reporting; and incentives. It is concluded that the structure of the delivery system is a critical factor in determining the regulatory approach to QC taken by federal agencies. Results of the review include: the regulations mandate the inclusion of not only computation and reporting of error rates, but also the development and implementation of corrective action plans; standards, measures, and frequency of computing and reporting measures are fairly consistent across programs; most regulations identify both positive and negative incentives; and the character of the regulations differ across agencies. (SW)

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AN ANALYSIS OF QUALITY CONTROL REGULATIONS FOR SELECTED FEDERAL ENTITLEMENT PROGRAMS

Prepared for

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November 1983

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1
INTRODUCTION

This report describes and compares Quality Control regulations for selected Federal entitlement programs. Programs examined include Aid to Families with Dependent Children (AFDC), Medicaid and the Supplemental Security Income Program run by the Department of Health and Human Services (HHS), and the Food Stamp Program run by the Department of Agriculture.

Each set of regulations dealing with Quality Control in the program is described according to several characteristics. These characteristics and the definitions are listed below:

- **Description:** The nature of the program and programmatic relationships among actors (Federal, states, local)
- **QC Responsibilities:** The portion of QC responsibility assigned to each actor.
- **QC Procedures:** The manner in which QC is prescribed in the regulations.
- **Standards:** Performance levels identified in the regulation, such as acceptable error rate or payment tolerances.
- **Measures:** Computation of indices of performance e.g., computation of state error rate.
- **Frequency of Measures:** The frequency with which measures are computed or produced.
- **Frequency of Reporting:** The frequency with which measures must be reported to appropriate agencies.
- **Incentives:** Positive or negative inducements specified in the regulations that encourage the reduction of error.
- **Other Elements:** Other characteristics of the QC system.

A comparative matrix of QC systems follows these descriptions.

2

DESCRIPTION OF APPROACHES

This section describes the QC regulations for selected programs according to the characteristics outlined in the Introduction.

2.1 AFDC QUALITY CONTROL

2.1.1 Description

Aid to Families with Dependent Children (AFDC) is an entitlement program that provides benefits to eligible families for child support in the form of cash payments. AFDC is run by Health and Human Services (HHS) and administered by state agencies. HHS provides AFDC funding to states on a matching basis. Payments to states are determined by state AFDC expenditures. The Social Security Act of 1972 mandates that states shall operate an ongoing Quality Control system. The regulations pertaining to QC in AFDC are contained in 45 CFR, sections 205.40-44.

2.1.2 QC Responsibilities

2.1.2.1 Federal

HHS has several basic responsibilities related to QC. First, the agency develops QC policies and procedures. Second, it establishes acceptable QC parameters. Third, it reviews agency performance relative to the prescribed standards; and fourth, it determines the federal reimbursement for state AFDC payments or Federal financial participation (FFP). Specifically, HHS performs the following QC functions:

- Specifies QC policies and procedures and issues the QC Manual to which all state QC systems must adhere
- Monitors state error rates through periodic QC reports
- Determine a national error rate from the state data

- Reviews state error rates to determine if FFP should be reduced or increased.

2.1.2.2 States

State agencies must develop a state plan for a QC system and implement an ongoing QC system in accordance with the HHS policies and procedures prescribed in the QC Manual. States must continually monitor case error through sampling and case review, and take corrective action on individual cases. States must also report error rates to HHS after the close of specified sampling periods. Specifically, states must:

- Develop and maintain a QC plan and implement an ongoing QC system to identify and correct case errors
- Develop corrective action plans for reducing case error rates
- Periodically report on error rates and corrective action plans to HHS.

2.1.2.3 Local Offices

The regulations indicate no specific responsibility for local offices of state agencies.

2.1.3 QC Procedures

QC procedures are only generally discussed in the regulations. The HHS QC Manual, the regulations indicate, contains specific QC procedures. The regulations mandate that QC procedures shall:

- Apply the prescribed sampling methods and schedules
- Conduct field investigations, including a personal interview in all cases which fall within the sample of active cases, and as necessary for cases in the negative case action sample
- Provide the resources and methods necessary to analyze the findings of the system
- Take appropriation corrective action on improperly authorized or denied assistance and on the causes of improper actions
- Assure access by HHS staff to state and local records relating to public assistance recipients and to third parties.

2.1.4 Standards

The regulations identify several standards with regard to QC. First, the regulations specify the "national error rate," which serves as a baseline in determining acceptable state error rates and is defined in legislation as 4 percent. Second, the regulations establish an improvement rate of one third over the three year transition period for states that have error rates in excess of the national error rate.

In addition, the regulations set error rate standards for filing corrective action plans. These standards are 3 percent for payments to ineligible persons and 5 percent for under or overpayment. The regulations also define $5 as the standard for individual cases of under or overpayments.

2.1.5 Measure

The only measure specified in the regulations is state "payment error rate," which is defined as "the dollar amount of incorrect payments a state has made expressed as a percentage of the state's total payments."

2.1.6 Frequency of Measure

The regulations imply that measurement is ongoing, notwithstanding existing state plans. HHS has established two 6 month sampling periods: April 1 through September 30 and Oct 1 through March 31.

2.1.7 Frequency of Reporting

States are required to file error reports with HHS within 60 days of the close of each sampling period and corrective action plans within 90 days.

2.1.8 Incentives

The HHS QC regulations provide for both positive and negative incentives; incentives are tied to error rates. The regulations mandate that states which are not either at or below the national error rate or their target error rates, will have the FFP

reduced by the dollar difference between the state error rate and the national error rate. States can appeal to HHS, within 45 days, any reduction in FFP. Such appeals are heard by the Grant Appeals Board.

Conversely, states receive increased FFPs for error rates below 4 percent. These states receive an additional amount equal to 10 percent of the Federal share of money saved for each one-half percent below 4 percent to a maximum of 50 percent.

2.1.9 Other Elements

The AFDC QC also calls for corrective action plans that are developed by the states and submitted to HHS. These plans identify means for reducing case error rates for ineligibility, overpayments, and underpayments.

2.2 SSI QUALITY CONTROL

2.2.1 Description

Supplemental Security Income (SSI) is an entitlement program that provides benefits in the form of cash payment to the aged, blind, and disabled. Legislation passed in 1972 created a national SSI program that centralized and consolidated within the Social Security Administration various state programs, and standardized payments accross the country. States are free to supplement such payments. In 17 states, SSA (HHS) administers both the Federal SSI and state supplementary payments. SSA bills states for these supplementary payments.

SSA has two QC systems. The larger and more complex is the Agency's internal system. This system is not prescribed through regulation since it is an internal system. The second QC system, one which is treated in regulation under 20 CFR, section 416.2086, deals with Federal administration of state supplementation funds. This QC system monitors the accuracy of Federal actions with regard to supplementary payments. SSA assumes liability for erroneous supplementary payments and repays states for such errors. SSA is not required by law to maintain or conduct such a system, but does so voluntarily.

2.2.2 QC Responsibilities

2.2.2.1 Federal

SSA has the primary responsibility for specifying and running the QC system. The Agency has outlined the specific procedures in the regulations. Administratively, the Agency also conducts the QC reviews. Specifically, SSA:

- Specifies and maintains the QC system
- Periodically conducts QC reviews
- Determines Federal liability to states for overpayments
- Reimburses states for Federal financial liability (FFL)
- Attempts to recover overpayments or payments to ineligibile individuals
- Adjusts QC error rate findings and payments to state if reviews indicate a higher error rate.

2.2.2.2 States

States, under their agreement with SSA which authorizes the Agency to administer state supplementary assistance payments, may conduct its own review of cases that SSA reviews. Specifically states may:

- Select a subsample of SSA identified cases for review
- Determine the error rate independent of the SSA review
- Inform SSA of its error rate findings
- Request adjustment of FFL.

2.2.2.3 Local Offices

Local office responsibilities are not mentioned in the regulations.

2.2.3 QC Procedures

In each of the 17 states in which SSA administers mandatory and supplementary (state) payments, the Agency selects and reviews a valid sample of relevant cases. From this sample, SSA computes an error rate for state supplementary payments by comparing the appropriate eligibility with the actual payments.

2.2.4 Standards

The SSA establishes in the regulations one major standard for the QC system, the national error rate. This is set at 4 percent.

2.2.5 Measures

Two measures are defined in the regulations. First is the error rate measure and, second, the Federal financial liability (FFL).

The error rate measure is the sum of all incorrect state supplementary payments to sample cases in the sampling period divided by the total supplementary payments to cases during the period.

The FFL is computed by multiplying the error rate by the total amount of Federally administered state supplementary payments in the state within the 6 month period and subtracting 4 percent from the total amount of Federally administered supplementary payments.

2.2.6 Frequency of Measures

The measures cited above are computed for 6 month periods, beginning in April and October. States must conduct their own reviews at the same time as the SSA reviews.

2.2.7 Frequency of Reporting

The results of the measures are reported every 6 months.

2.2.8 Incentives

SSA assumes liability (FFL) for an amount equal to the incorrect state supplementary payments above the 4 percent national standard in states in which the Agency administers both monitoring and supplementary payments.

2.3 FOOD STAMP PERFORMANCE REPORTING SYSTEM QUALITY CONTROL

2.3.1 Description

The Food Stamp program is an entitlement program providing assistance to eligible individuals and families in the form of coupons redeemable for food. The program is run by the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture. Although benefits are funded exclusively by the Federal government, the program is administered through state agencies. The Department of Agriculture reimburses states for 50 percent of the costs incurred in administering the program in the state.

In order to reduce administrative error in state administration of the Food Stamp program, the 1977 Food Stamp Act mandated that states conduct an ongoing system of monitoring and improving program administration. The FNS implemented quality control procedures through the Performance Reporting System (PRS). This system has two components: Management Evaluation and Quality Control reviews. This analysis focuses mainly on the Quality Control review although the system is an integrated one. The regulations also tie Federal reimbursement of states' administrative costs to the error rates. The regulations pertaining to the PRS and quality control are contained in 7 CFR part 275.

2.3.2 QC Responsibilities

2.3.2.1 Federal

The FNS has several responsibilities for the Food Stamp quality control. First, FNS specifies the characteristics and procedures of the PRS through regulations. These regulations outline in detail all facets of the PRS, including responsibility and

procedures for general administration, management evaluation, quality control, data analysis and evaluation, and reporting on program performance.

Second, the FNS monitors agency performance through various state PRS reports. FNS monitors state activity on three levels: compliance with program regulations; appropriate review procedures including sampling techniques; and review findings, which measure state agency performance.

Third, the FNS, if necessary, determines if the state is eligible for an increase in the Federal share of administration costs or is liable for payment in excess of the error rate goals. Fourth, FNS approves all corrective action plans developed by state agencies to reduce error.

2.3.2.2 States

States are responsible for establishing a continuing PRS to monitor program administration and operations. Specifically, the state system should include:

- Data collection through management evaluation (ME) reviews and quality control (QC) reviews
- Analysis and evaluation of data from all sources
- Corrective action planning
- Corrective action implementation and monitoring
- Reporting to FNS on program performance.

States must also appoint a full-time staff member at the state level to coordinate the PRS and ensure implementation of corrective action. States must also employ "sufficient state-level staff to perform all aspects of the (PRS). . . ."

2.3.2.3 Local Offices

The regulations do not mandate a role for local offices, and local program staff are prohibited from conducting ME or QC reviews without prior FNS approval.

2.3.3 QC Procedures

Quality control reviews measure validity of food stamp cases by reviewing sample cases against the Food Stamp Program standards established in the Food Stamp Act and the regulations, as specified in each state's FNS-approved manual. The PRS QC regulations require sampling a specified number of active (those receiving benefits) and negative (those denied benefits) cases, verification of household circumstances that relate to eligibility through interviews and checking collateral sources, determination of appropriate level of benefits, and comparison with benefits received.

The regulations require that states analyze the findings to determine the incidence and dollar amounts of errors to determine the state's cumulative allotment error rate and eligibility for enhanced funding in accordance with the Food Stamp Act of 1977, and plan corrective action to reduce excessive levels of errors when cumulative allotment error rates of 5 percent of more are reported.

The regulation specifies a state sampling plan, including minimum sample size, sample selection and sample case review completion.

Similarly, the regulations specify in detail the procedures for review of active cases. These include:

- A case record review
- An interview with the participant
- Verification of information, using secondary sources when necessary
- A determination of the presence of any variances
- A determination of eligibility and correctness of issuance
- A determination of the number of administration deficiencies.

For negative cases, a similar, though more restricted, procedure is outlined.

2.3.4 Standards

FNS establishes several standards in the regulations. First, the regulations specify 5 percent as the national standard for error rates. In addition, the regulations establish an algorithm for establishing error rate goals for states above the national standard.

Because of the detailed nature of the regulations, many standards for sampling and case review are established, including a 95 percent completion rate for case review and a $5 error tolerance for benefits.

2.3.5 Measures

The regulations establish several measures for the Food Stamp PRS QC system. First and most important is the cumulative allotment error rate, which is a cumulative index of several types of error. This is computed by summing the dollar value of allotments underissued or overissued to sample recipients, including ineligible cases.

In addition, the regulations establish active and negative case error rates. Both are computed by dividing the number of sample QC cases which contain one or more of several types of error by the total number of cases in the QC sample. The result is expressed as a proportion.

2.3.6 Frequency of Measures

The quality control program samples cases in six month periods. The selection of individual cases for QC reviews are made separately each month during the period.

2.3.7 Frequency of Reporting

State agencies report QC findings on a semi-annual basis.

2.3.8 Incentives

The Food Stamp PRS QC system contains both positive and negative incentives, which are tied to the cumulative allotment error rates. States with an error rate

below 8 percent are eligible for a 60 percent Federally funded share of administrative costs; a 65 percent share is provided to states with an error rate of 5 percent or below. States above the 8 percent rate that reduce error rates by 25 percent or more in a year are entitled a 55 percent Federally funded share of administrative costs.

States failing to meet error rates goals must repay FNS for the dollar value of the difference between target error rate and the actual error rate for a six month sampling period.

2.3.9 Other Elements

The Food Stamp PRS QC system is part of a larger management and reporting system. The regulations indicate not only a heavy emphasis on measurement of performance and error rates, but also corrective actions. States are required to file corrective action plans that detail the means by which administrative problems and error rates will be reduced.

2.4 MEDICAID QUALITY CONTROL

2.4.1 Description

Medicaid is an entitlement program that provides benefits to eligible individuals in the form of payments for medical services. Medicaid is run by the Health Care Financing Administration of the Department of Health and Human Services and is administered by state agencies. HHS provides medicaid funding to states on a matching basis. These payments are known as the Federal financial participation (FFP) and are provided on the basis of allowable state Medicaid expenditures. The QC system used in the Medicaid program is similar to the AFDC QC system. The regulations pertaining to Medicaid QC are contained in 42 CFR, sections 431.800-803.

2.4.2 QC Responsibilities

2.4.2.1 Federal

HHS has several basic responsibilities related to Medicaid QC. First, the agency develops QC policies and procedures. Second, it establishes acceptable QC

parameters. Third, it reviews agency performance relative to these standards and fourth, determines the Federal reimbursement for state AFDC payments or Federal financial participation (FFP). Specifically, HHS performs the following QC functions:

- Specifies QC policies and procedures and issues the QC Manual to which all states QC systems must adhere
- Monitors state error rates through periodic QC reports
- Reviews state error rates to determine if FFP should be reduced for unacceptable error levels or if FFP should be increased for state error rate below the national standard.

2.4.2.2 States

State agencies must develop a state plan for a QC system and implement an ongoing QC system in accordance with the HHS policies and procedures prescribed in the QC Manual. States must continually monitor case error through sampling and case review, and take corrective action on individual cases. States must also report error rates to HHS after the close of specified sampling periods. Specifically, states must:

- Develop and maintain a QC plan and implement an ongoing QC system to identify and correct case errors
- Develop corrective action plans for reducing case error rates
- Periodically report on error rates and corrective action plans to HHS.

2.4.2.3 Local Offices

The regulations indicate no specific role for local offices of state agencies.

2.4.3 QC Procedures

QC procedures are generally discussed in the regulations. The HHS QC Manual, the regulations indicate, contains specific procedures. The regulations mandate that states shall:

- Operate the MQC system in accordance with the policies, sampling methodology, review procedures, and reporting forms and requirements specified in Medicaid quality control manuals issued by HCFA

- Select statistical samples of both active and negative case actions
- Review each case in the sample to identify eligibility errors
- Review any claims pertaining to each active case to identify erroneous payments resulting from —
  - Ineligibility
  - Recipient understated or overstated liability
  - Third-party liability
  - Claims processing errors
- Conduct field investigations, in order to verify eligibility information, including —
  - Personal interviews for each case in the active case sample
  - Personal interviews for cases in the negative case action sample, to the extent necessary to verify erroneous eligibility determinations
- Use 6-month sampling periods, from April through September and from October through March.

2.4.4 Standards

The regulations establish several standards with regard to QC. The first measure is the "national error rate," which serves as a baseline in acceptable state error rates. This is defined in legislation as 4 percent. Second, the regulations establish an improvement rate of one third over a three year transition period for states that have error rates in excess of the national error rate. The regulations also define the error standard as any amount greater than the allowable reimbursement level for a specific service.

2.4.5 Measures

Two measures are specified in the regulations. The first, the annual state payment error rate, which is defined as the sum of the weighted payment error rates for the two 6-month review periods. Weighting is established as a percentage of total annual payments that occur in each six month period.

The regulations state that the second measure, the state payment error rate, which is computed as part of the QC findings, will be determined for each annual assessment period "in accordance with instructions issued by HCFA" (section 432.802).

2.4.6 Frequency of Measures

The regulations imply that measurement is ongoing. HHS has established two 6-month sampling periods: (April 1 thourgh September 30 and October 1 through March 31). State error rates are, however, computed on an annual basis.

2.4.7 Frequency of Reporting

The agency must submit reports to HHS in the form and at the time specified, including:

- A description of the State's sampling plan for active cases and negative cases
- A monthly report on eligibility case reviews completed during the month for all cases in the active case sample for that month and selected cases from the negative case sample for that month
- A monthly report on payment reviews completed during the month for cases in the active case sample (States must wait 5 months after each sample month before accumulating claims paid for each case -- through the fourth month following the sample month)
- A summary report on eligibility findings and payment error findings for all cases in the 6-month sample, to be submitted by May 31 of each year for the previous April - September sampling period, and by November 30 for the October - March sampling period
- Other data and reports that the Administrator requests.

2.4.8 Incentives

The HHS Medicaid QC regulations provide for penalties in the form of FFP reductions tied to annual state payment error rates. The regulations mandate that states that are above the national payment error rate will have the FFP reduced by the dollar amount equal to the difference between the national and the annual state payment error rates. States can appeal the reduction by demonstrating that inability to reduce error was due to factors beyond its control.

2.4.9 Other Elements

The Medicaid QC also calls for corrective action plans that are developed by the states and submitted to HHS. These plans identify means for reducing case error rates for ineligibility or overpayments.

The agency must:

- Take action to correct any eligibility, third-party liability, claims processing, or negative case action errors found in the sample cases
- Take administrative action to prevent or reduce the incidence of those errors
- By July 31 each year, submit to the Administrator a report on its error analysis and a corrective action plan.

2.5 MATRIX

The following matrix compares the characteristics of quality control regulations for the four entitlement programs considered in this analysis.

CHARACTERISTICS OF QC REGULATIONS FOR SELECTED ENTITLEMENT PROGRAMS

	PROGRAM			
	AFDC	SSI	Food Stamps	Medicaid
Description	• Run by HHS; administered by states • States reimbursed on a matching basis for allowable cash payments	• Run by SSA/HHS • Program also administers state supplementary payments • SSA reimburses states for erroneous payments above the national error rate	• Run by the FNS/Department of Agriculture; administered by state agencies • Department reimburses states for 50 percent of program administrative costs • QC is part of a Performance Review System (PRS)	• Run by HCFA/HHS; administered by states • HHS reimburses states on a matching basis for allowable medical services
Responsibilities				
Federal	• Establishes QC policies and procedures and publishes QC Manual • Establishes QC system parameters • Determines Federal financial participation (FFP) adjustments	• Has primary responsibility for conducting voluntary QC for state supplementary funds • Determines error rates • Reimburses states for erroneous supplementary payments in excess of national error rate • Attempt to recover overpayments	• Specifies characteristics and procedures for all facets of PRS through detailed regulations • Monitors state agency performance through state PRS reports • Determines administrative cost adjustment and state overpayment liability	• Establishes QC policies and procedures and publishes QC Medicaid Manual • Establishes QC system parameters • Determines Federal financial participation (FFP) adjustments
State	• Develops state QC plans • Implements an ongoing QC system • Develops corrective action plans • Periodically reports error rates and corrective action plans to HHS	• May conduct its own review of a subsample of cases selected by SSA for QC review	• Responsible for data collection through management evaluation (ME) reviews and quality control (QC) reviews; analysis and evaluation of data from all sources; corrective action planning; corrective action implementation and monitoring; and reporting to FNS on program	• Develops state QC plans • Implements an ongoing QC system • Develops corrective action plans • Periodically reports error rates and corrective action plans to HHS
Local	• No responsibility specified in regulations	• No responsibility specified in regulations	• No responsibilities specified in regulations	• No responsibility specified in regulations

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	PROGRAM			
	AFDC	SSI	Food Stamps	Medicaid
Procedures	• States must follow QC procedures outlined in HHS/AFDC QC Manual • Regulations mandate that states: - apply the prescribed sampling methods and schedules - conduct field investigations, including a personal interview in all cases which fall within the sample of active cases, and as necessary for cases in the negative case action sample - provide the resources and methods necessary to analyze the findings of the system - take appropriate corrective action on improperly authorized or denied assistance and on the causes of improper actions - assure access by HHS staff to state and local records relating to public assistance, to recipients, and to third parties	• SSA selects and reviews a valid sample of relevant cases • Computes error rates by comparing appropriate payments with actual payments	• QC procedures are specified in detail in the regulations and include: - sampling procedures, including minimum sample sizes - case review procedures, including a case record review; an interview with the participant; verification of information, using secondary sources when necessary; a determination of the presence of any variances and coding and analysis of the variances, if applicable; a determination of eligibility and correctness of basis of issuance; and a determination of the number of administrative deficiencies - completion rate for all selected cases	• Regulations mandate that states: - operate the QC system in accordance with the policies, sampling methodology, review procedures, and reporting forms and requirements specified in Medicaid quality control manuals issued by HCFA - select statistical samples of both active and negative case actions - review each case in the sample to identify eligibility errors - review any claims pertaining to each active case to identify all erroneous payments - verify eligibility information by conducting field investigations, including: - personal interviews for each case in the active case sample - personal interviews for cases in the negative case action sample, to the extent necessary to verify erroneous eligibility determinations - use 6-month sampling periods, from April through September and from October through March
Standards	• Legislation defines "national error rate" as 4% • Specifies an improvement rate for reducing state error at one third per year during the three year transition period • Specifies error levels above which corrective action plans are required to be submitted to HHS (3% per payments to ineligibles; 5% for under or overpayments) • Specifies $5 as error tolerance	• The single standard established in the regulations is the national error rate at 4%	• The regulations specify a 3% national standard for error rates • Specifies a 95% case review completion rate error level • Specifies $5 error tolerance	• Legislation defines "national error rate" as 4% • Specifies an improvement rate for reducing state error at one third per year during the three year transition period • Specifies any amount above allowable reimbursement level as an error

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	PROGRAM			
	AFDC	SSI	Food Stamps	Medicaid
Measures	• Payment error rate is the dollar amount of incorrect payments a state has made as a percentage of the state's total payments	• Error rate is computed by summing all incorrect state supplementing payments in the sample divided by the total supplementing payments to cases • FFL is the quotient of the error rate times total Federally administered supplementary payments in the state	• Regulations specify a cumulative allotment error rate, which is the dollar value sum of all erroneous allotments • Case error is the proportion of sample cases in error	• Annual state payment error rate is the sum of weighted payment errors for each of the sample periods • Payment error is determined in accordance with the instruction issued by HCFA
Frequency of Measures	• Regulations imply inquiry sampling during two 6 month sampling periods beginning in April and October	• Measures for supplementary payment error are computed for each 6-month sampling period • States must conduct reviews at the same time	• QC samples cover 6-month periods • Cases are reviewed continuously during these periods	• Regulations imply inquiry sampling during two 6 month sampling periods beginning in April and October
Frequency of Reporting	• States are required to report QC findings within 60 days of the close of each sample period • States are required to file corrective action plans, if necessary, within 90 days of the close of the sampling period	• Error rates and FFL are reported after each 6 month sampling period	• Agencies report semi-annually	• The regulations state that the agency must submit reports to the Administrator, in the form and at the time specified by him, including: - a description of the state's sampling plan for active cases and negative cases - a monthly report on eligibility case reviews completed during the month - a monthly report on payment reviews completed during the month for cases in the case sample - a summary report on eligibility findings and payment error findings for all cases in the 6 month sample, to be submitted by May 31 of each year for the previous April-September sampling period, and by November 30 for the October-March sampling period

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	PROGRAM			
	AFDC	SSI	Food Stamps	Medicaid
Incentives	• Negative: - states are responsible for the amount of erroneous payments above the national error rate - FFP is reduced to reflect such amounts • Positive: - states receive increased FFP for error rates below the national error rate - amounts equal an additional 10% of the Federal money gained up to 50% for each half percent below 4%	• Negative: - SSA assumes liability (FFL) for all erroneous payments in excess of the 4% of total payments	• Negative: - states are liable for the amount of erroneous payments in excess of 4% of total payments • Positive: - states are eligible to receive an increased share of Federally funded administrative costs for error rates below 8% and 5% and for decreasing error rate 25% within a year	• Negative: - states are responsible for the amount of erroneous payments above the national error rate - FFP is reduced to reflect such amounts
Other Elements	• AFDC QC calls for corrective action plans as a response to error rate determination • An appeal of a "disallowance" or reduction of FFP is provided in the regulations		• Food stamps QC is part of an integrated PRS that provides a comprehensive and continued evaluation of management, regulatory compliance, error rates, and planned corrective action	• Medicaid QC calls for corrective action plans as a response to error rate determination

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CONCLUSIONS AND IMPLICATIONS FOR ED TITLE IV QUALITY CONTROL REGULATIONS

3.1 CONCLUSIONS

The foregoing sections of this report examine the entitlement program regulations issued by several departments and agencies to determine the approach taken to quality control (QC) through regulations. From this analysis several conclusions can be drawn. These conclusions deal with both the configuration of quality control procedures and the approach to the regulations themselves. Each of these has implications for the general approach to quality control regulations which might be taken by ED.

First, the present analysis suggests that the structure of the delivery system is a critical factor in determining the regulatory approach to QC taken by Federal agencies. Each set of QC regulations reviewed deals almost exclusively with states and specifies no role for local agencies or offices. The delivery system is centralized at the point of federal/state contact, which has major structural and functional implications for Title IV QC.

HHS, in the AFDC and Medicaid programs, uses an approach in which the Agency prescribes to state agencies QC policies, procedures and system parameters. State agencies develop and implement quality control plans and procedures which measure and report program error rates. HHS then reviews and approves (or disapproves) QC plans. The Federal agency then computes the Federal financial participation (FFP) and that penalizes or rewards states on the basis of error rates. It also approves (or disapproves) any needed corrective action plans.

SSI, administered by SSA within HHS, has similar QC procedures, except that SSA conducts the actual QC for state supplementary payments, and reports to and pays states if SSA error rates are above the national standard.

The FNS utilizes a different approach within a similar administration structure. FNS has established a far more comprehensive Performance Reporting System (PRS) of which quality control is a single facet. The PRS requires that states report management and other evaluations as well as submit corrective action plans.

Second, all regulations mandate the inclusion of not only computation and reporting of error rates, but also the development and implementation of corrective action plans. These plans emphasize administrative improvement by states and identify procedures for reducing error. FNS requires approval of corrective action plans.

Third, standards, measures and frequency of computing and reporting measures are fairly consistent across programs. Legislation specifies a 4 percent error rate as the national standard for the HHS programs and FNS uses a similar standard. Measures vary somewhat due to the differences among programs. Frequency of computing and reporting measures are consistently semi-annual. All programs include negative action cases (those denied benefits) in sampling and measures.

Fourth, most regulations identify both positive and negative incentives; only Medicaid does not utilize positive incentives for states. In all but SSI, states are liable for erroneous payments about an amount equal to the National Standard; the opposite is true for SSI, in which SSA administers state supplementary payments. Positive incentives are generally similar, rewarding states that are below the national standard error rates, although the mechanisms differ. Through the matching funding arrangement, as in AFDC, these incentives are tied to overmatching the state contribution. For Food Stamps, in which FNS supports the entire program, FNS increases administrative allowances as an incentive.

Last, the character of the regulations themselves differ across agencies. HHS regulations are more simple and brief. The regulations reference the respective quality control handbooks for detailed procedures and policies. Conversely, FNS uses the regulation to provide all details for state quality control systems.

3.2 IMPLICATIONS FOR TITLE IV QC REGULATIONS

These conclusions drawn from an analysis of QC regulations for Federal entitlement programs have several implications regarding the regulatory approach to QC which might be taken by ED. First, and perhaps foremost, the structure of the student aid delivery system, and the nature of the relationship of ED and education institutions participating in Title IV programs, require a different approach than those used in Federal programs reviewed above.

3.2.1 Responsibilities

Most germaine is the fact that the Title IV delivery system is considerably more decentralized than the other Federal programs reviewed in this analysis. The absence of states as an intervening administrative layer renders infeasible for Title IV purposes some of the characteristics of the regulatory approach used in these other entitlement programs. While ED would clearly assume responsibility for quality assurance similar to those assumed by other Federal agencies, primary QC responsibilities must rest at the local level with the institutions. Although this fact is self-evident, it contrasts with the structure of existing QC procedures and has implications for ED's ability to execute and monitor Title IV program QC. These implication will be discussed below.

3.2.2 Procedures

In light of ED's approach to validation and verification, it seems appropriate and consistent that ED specify general QC requirements and procedures in regulations while providing a more detailed set of procedures in a Quality Control Manual. This is similar to the approach used by HHS in the AFDC program, but significantly differs from the FNS/Food Stamp and HHS/Medicaid approach of providing detailed procedures directly in regulations. It is clearly advantageous to utilize a QC Manual and not be required to make constant regulatory revisions for routine and minor changes in procedures. Using the HHS/AFDC approach, ED's QC regulations would require that institutions:

- Apply the prescribed sampling methods and schedules
- Conduct appropriate and prescribed review of all cases which fall within the sample of active cases, and as necessary for cases in the negative action sample

- Provide the resources and methods necessary to analyze the findings of the system
- Take appropriate corrective action on improperly authorized or denied aid and on the causes of improper actions
- Assure access by ED staff to records relating to QC actions.

The QC Manual would prescribe specific procedures for meeting the general regulatory requirements. In light of the diversity of institutions, allowing some flexibility to use procedures appropriate to the institution's capabilities and structure would be beneficial.

The requirement of developing and implementing corrective action plans, essential parts of QC in most regulations reviewed in this report, should also be a component of ED's approach to institutional QC. ED review and approval of such plans, however, as included in the FNS/Food Stamps regulations but not in the HHS regulations, is unrealistic in light of the number of partcipating institutions and current ED resources.

3.2.3 Standards

ED must consider two standards: error rates and error tolerances. The standards for error rates and tolerance vary slightly among programs, but are prescribed by legislation in most of the programs reviewed. Error rates range from 4 to 5 percent. Two of the programs specify $5 error tolerance, although HHS/Medicaid allows no tolerance. A review of comments submitted in response to NPRMs and published in the Federal Register suggests that error rates was one of the most sensitive issues for participants in the Federal programs reviewed.

ED must establish error rates and tolerance that are sensitive to institutions, yet meaningful and responsive to the general thrust of ED's quality control. This is particularly true if these rates and tolerances are related to positive and negative incentives.

Particularly with regard to error rates, ED may employ a transitional error rate structure with declining rate targets similar to that used by HHS in the regulations reviewed. Such a structure would create incentives for high error rate institutions to

reduce error rates without unduly penalizing those with high, but declining, rates. Error rate levels should also provide triggers for corrective action plan requirements.

3.2.4 Measures

ED faces two issues related to measures: payment error and error rate. Payment error may include under and overawards in excess of the prescribed tolerance. The concept of payment error may pose significant methodological problems, particularly in the Campus-Based program. Error rates typically are computed as total error divided by total payments, which seems applicable to ED QC regulations once payment error has been appropriately defined.

3.2.5 Frequency of Measures

Although all programs considered conducted semi-annual sampling and QC review, this frequency may be inappropriate for certain participating institutions. Many institutions award or package aid to the majority of applicants once a year, but disburse more frequently. Hence, the frequency of measurement should probably be tied to awarding rather than disbursement of aid. This strategy would eliminate unnecessary and duplicative sampling and QC review, but would capture all students in universe from which the sample is drawn.

3.2.6 Frequency of Reporting

One key issue for ED is the frequency of reporting QC findings. While most programs reviewed require reporting within 90 days of completion of the semi-annual error measure computation, the implications of such a reporting schedule must be carefully scrutinized with regard to the goals of the QC effort and the reporting vehicles. If ED utilizes existing program reporting mechanisms, such reports as Pell Grant Progress Reports and the FISAP are candidates for reporting mechanisms. However, both have implications for the frequency of reporting and the institutions captured by such instruments. A new instrument dedicated solely to such reporting would allow ED to meet any desired reporting schedule and capture all institutions, but may be perceived as an additional reporting burden.

3.2.7 Incentives

Appropriate incentives are critical to the success of QC efforts. All programs reviewed used negative incentives in the form of penalties for high error rates. These penalties equaled erroneous payments above the error rate standard. Two programs also used positive incentives by increasing administrative cost payments for error rates below specified targets. ED could adopt a similar incentive structure, making the institution responsible for erroneous payments exceeding prescribed error standards and increasing administrative allowance payments for bettering specified error rate targets.

3.3 SUMMARY

The preceding discussion suggests that a review of QC regulations of selected QC regulations provides valuable insights and options that can inform ED in approaching QC regulations for the Title IV program. These options must be skillfully altered to meet the unique needs of ED and the distinct nature of the programs, educational institutions, and ultimate beneficiaries of the program, the students.